



## State Capacities and Bargaining Strategies in the Global Disorder

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# **STATE CAPACITIES AND BARGAINING STRATEGIES IN THE GLOBAL DISORDER**

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# State Capacities and Bargaining Strategies in the Global Disorder<sup>1</sup>

*Lately I have been exhorting Malaysians to emulate the Japanese...We have for a long time been looking West,...but the West is no longer a suitable model.*  
Mahathir bin Mohamad. Prime Minister of Malaysia. Kuala Lumpur, February 1982

## Introduction

This paper argues that the prescribed remedy from the West to free market forces, to create or strengthen market-supporting institutions and to drastically reduce the role of the state in Vietnam is not confirmed by the high growth capitalist economies in Southeast Asia. (Malaysia, Indonesia and Thailand) Social control has been pursued over investment and the state performed an overall involvement in the economy through strategic planning and policy intervention in order to secure and optimize national capital accumulation and economic growth. However, it is not the intention in this paper to discuss Vietnam's development experience in detail but to provide a tentative framework for analysis of the internal and external role of the state in relationship with changes in the global context.

The first section elaborates on the latest upheavals of the international political economy and argues that these have altered the relationships among states and transnational corporations. The growing disorder on the geo-political level of the post Cold War capitalist system has created a symbiotic rivalry among three core economic powers and at the same time the old axis between the G-7 former colonial powers continue to collaborate on especially one important issue - to keep the North in control and the rest out in the dark. The second section deals with new options of the state in the Third World. The complex issue of the implications of national choice of industrial policy and efficiency in economic management is explored in light of the East Asian NIC- and Southeast Asian Would-be NIC-experience which seems useful as a model for possible emulation. The final section provides some tentative comments

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<sup>1</sup> Slightly revised version of a paper presented at the 'First Meeting of Euro-Southeast Asia Network of Innovation and Co-Development Study', Hanoi University 18-20 April 1994, Hanoi Vietnam.

on these issues for an economy in transition as well as the relevance of the 'East Asian Model' for Vietnam.

## **Disorder and Rivalry in the Global Economy**

Speaking to a joint session of Congress on 11 September 1990, during the build-up for the Gulf war, President George Bush for the first time mentioned an overarching objective of US foreign policy: "A new world order ... a new era - freer from the threat of terror, stronger in the quest for peace, an era in which the nations of the world East and West, North and South, can prosper and live in harmony... Today, that new world is struggling to be born, a world quite different from the one we have known, a world where the rule of law supplants the rule of the jungle, a world in which nations recognize the shared responsibility for freedom and justice, a world where the strong respect the rights of the weak."<sup>2</sup> This new world order utopia of the US turned out to be a very short-lived vision.

Soon after the military victory in the Gulf war it became clear to the US-led alliance that the survival of Saddam Hussein and his regime was believed to be beneficial to Northern strategic interests in order to ensure the unity of Iraq and the containment of Iran and Islamic fundamentalism. This strategy followed the fall of communist party rule in the former Soviet Union and Eastern Europe, ethnic strife in former Yugoslavia, religious fundamentalism in the Arab world, and possible nuclear proliferation in North Korea, Iran and Pakistan. The idealism of the new world order project was replaced by a return to real-politics and a new stage of disorder entered the Post-Cold War world.<sup>3</sup> The fundamental outcome of disorder of geopolitics became a centrifugal force of integration and disintegration in the global polity.

The harsh reality of disorder and the new role of the North is reflected in the logic of thinking that has dominated Anglo Saxon policy-making over the last decades. One position is the influential conservative theorist Samuel Huntington's new crusade against other civilizations, 'Christianity against a Confucian-Islamic conspiracy'.<sup>4</sup> However, cultural, religious or other civilizational differences have been just one of many factors responsible for conflicts. Territory and resources, wealth and property, power and status, individual personality and group

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<sup>2</sup> US Department of State, Current Policy, Document No. 1298. Washington, 1990.

<sup>3</sup> Richard Falk, *In Search of a New World Model*, Current History, Vol. 92, No.573, April 1993, p.147.

<sup>4</sup> Samuel Huntington, *The Clash of Civilizations?*, Foreign Affairs, Summer 1993.

interests are other factors.<sup>5</sup> Stanley Hoffmann, another highly influential US political scientist sees: "The end of the Cold War as providing an opportunity for the establishment, not quite of a world government, but a halfway house managed by the US, Japan and the EC, with Russian support, which would, *inter alia*, deny advanced technology to the Third World, ensure the latter's compliance with Northern-defined environmental standards and drug eradication programmes, and dole out aid (presumably permanently) for 'health care, energy efficiency, agricultural productivity and human rights.' The idea apparently being that the Third World is to become a permanent ward of the advanced countries, with no hope or intention of ever aspiring to equality."<sup>6</sup>

Against such a background, it is not surprising that there is in prevailing global circumstances, a contradictory set of tendencies that makes interpretation of the shape 'of international relations more confusing than usual. The fact is that North America continues to experience the objective and subjective aspects of cumulative, if relative, economic decline. If the hegemon maintains a steady pace, but its rivals continuously accelerate, it seems as if the leader is losing ground all the time. This shifting tectonics of geopolitics is clearly illustrated in rethorics and policy prescriptions of the US dominated multilateral institutions.

The Bretton Wood's set-up GATT, the World Bank and IMF represents the new paradigm of policy interventions which term comprehensive development planning as wholly out of fashion. With the rising trend towards privatization, deregulation, removal of exchange controls and increasing reliance on market-determined interest rates, states and governments have begun to take a back seat and the market to reign supreme in the allocation of resources and incomes leaving the private sector left free and unfettered and allowed to take the lead in promoting economic development.<sup>7</sup> In this period of global transformation with its bleak prospects of neo-liberal hegemony and free markets leading to global anarchy, protectionist pressures have been growing in the North.

There is now enough evidence showing that the international economy is increasingly characterized by a combination of neo-liberal rethorics on the one hand and oligopolistic competition

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<sup>5</sup> See the critique of Huntington in Chandra Muzaffar, '*Clash of Civilization*' serves West's interests, Third World Resurgence No.39, 1994, p.17.

<sup>6</sup> Stanley Hoffmann, *A New World Order and its Troubles*, Foreign Affairs, Fall 1990.

<sup>7</sup> See Nassau A. Adams, *Worlds Apart. The North-South Divide and the International System*, Zed Books, London, 1993, p.224.

and strategic interaction on the other.<sup>8</sup> The world economy is defined by comparative advantage, international competitiveness, and a new rank-ordering in the international division of labor which results in large measure from corporate strategies and national policies rather than from natural endowments.<sup>9</sup>

Global competition is much more than just rivalry among transnational companies (TNC) which is only the most visible manifestation. The concept of 'global competitiveness' helps to clarify that global competition leads to continuous confrontation "...between different production systems, institutional schemes and social organizations in which business enterprises figure prominently but are nonetheless only one component of a network that links them with the educational system, the technological infrastructure, management/labour relations, the relationship between the public and private sectors, and the financial systems."<sup>10</sup>

As result, states, governments and regional trade blocs are alongside with TNCs playing an increasingly important role in international competition and a new increasingly aggressive industrial policy doctrine is currently emerging, both in the North and in the South. To make the point, neo-mercantilism is the new weapon in international competition.<sup>11</sup> Neo-mercantilism simply indicates that global competition has become increasingly politicized. Heavy state involvement is geared to an improvement, not only of the balance of payments, but to a strengthening of so-called strategic industries. Also strategic trade policy has become important since the breakdown of the American Dollar exchange system in the early 1970s and the use of selective import restrictions or demands of 'voluntary' export restraints are clearly signals that the international economy is entering a new stage. Strategic trade policy connotes the same general meaning as neo-mercantilism but is characterized by governments which take action that gives commercial firms a credibility they could not otherwise achieve. This view is consistent with the conclusions of the so-called new trade theory that focuses on the

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<sup>8</sup> Among others see: G. Dosi and L. Soete, *Technical Change and International Trade*, in G. Dosi et al., (eds.), *Technical Change and Economic Theory*, London and New York, 1988.

<sup>9</sup> Robert Gilpin, *The Political Economy of International Relations*, Princeton University Press, Princeton New Jersey, 1987.

<sup>10</sup> F. Fajnzylber, *Technical Change and Economic Development - Issues for a Research Agenda*, Santiago de Chile, November 1988 p.2. Quoted from Dieter Ernst and David O'Connor, *Technology and Global Competition. The Challenge for Newly Industrializing Economies*, OECD Development Centre, Paris 1989, p.26.

<sup>11</sup> For a discussion of the concept see Johannes Dragsbaek Schmidt, *In the Shadow of the Pacific Century. - Comparative perspectives on externalities influence on economic policy-making in Southeast Asian Would-be NICs*. Department of Development and Planning, Development Research Series, Working Paper No.31, Aalborg University, Denmark, June 1993.



determinants of trade patterns and on the resulting distribution of national welfare. Another way to describe this emerging global policy doctrine is by using the concept of 'controlled competition' meaning an economic system in which intense competition between firms in key industrial sectors is partly directed and at times limited by both state actions and the formal and informal collaborative efforts of industrial and financial enterprises. The precise rules guiding the system evolve over time with the structure of the economy, and the political position and purpose of bureaucrats. Not surprising, state bureaucratic agencies determine under what conditions, capital, technology and manufactured products enter and leave a country. In a sense, this policy prescription is concerned with identifying the optimal way to protectionism, visible or invisible, export promotion and international investment.

Strategic trade policy *inter alia* neo-mercantilism maintains that comparative advantage can be changed through learning, and through government action. This has been clearly shown by a number of East and Southeast Asian states which deliberately created a competitive advantage through judicious interaction of state policies and private business.<sup>12</sup> This tendency is further advanced by the increasing regionalization of the global economy pointing to the fact that in many cases the national state has become too small to compete on its own.

The emergence of three great trading mega-blocs is already in the making.<sup>13</sup> In East Asia, Japan evokes chilling memories of World War II's Greater East Asia Co-Prosperity Sphere as Tokyo forges closer ties with the NICs and the second- and third-tier Would-be-NICs.<sup>14</sup> The United States no longer provide the anchor for world liquidity and Europe 1992 is emerging. Hence, although global competition is still predominantly shaped by rivalries between the United States, Japan and Western Europe, it also now functions within a complementary institutional, and regional framework.

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<sup>12</sup> See among others Chalmers Johnson, MITI and the Japanese Miracle, Stanford University Press, California, 1982, Alice H. Amsden, Asia's Next Giant. South Korea and Late Industrialization, Oxford University Press, New York, 1989, Robert Wade, Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization, Princeton University Press, Princeton and New Jersey, 1990, and the contributions in Paul R. Krugman (ed.), Strategic Trade Policy and the New International Economics, The MIT Press, Cambridge, Massachusetts, 1988.

<sup>13</sup> East Asian Economic Caucus (EAEC), Asia Pacific Economic Cooperation (APEC), North American Free Trade Agreement (NAFTA), and the European Union (EU) all tends to divide the global economy into fragmented blocs.

<sup>14</sup> The NICs in East Asia comprises Taiwan, South Korea and the tiny city-states Singapore and Hong Kong. Second-tier NICs are ultimately a new emerging group of countries such as Malaysia, Thailand and China. Third-tier NICs are Indonesia, Philippines and Vietnam.

Nevertheless, American economic hegemony, taken for granted a generation ago, is being eroded by the relative success of Japan and the EU. Despite apparent unanimity about the goal of free trade, managed trade is the rule. Neo-mercantilism thrives and has adapted to the post Cold War economic order. Corporations are increasingly interacting with states as the driving force behind the efforts to manage the international trade system. Corporate neo-mercantilism propelled by monopolistic transnational enterprise and governments is the prevailing model. TNCs are dependent on international trade and, as such, are the driving force for "freer" trade. National neo-mercantilism has been complemented with corporate neo-mercantilism. Because trade now is increasingly within companies rather than between countries, comparative advantage is no longer based on the initial factor endowment of land, labor and capital. Instead, for many industrial sectors "comparative advantage is made, not given."<sup>15</sup>

To sum up, many industrialized countries, and particularly the European countries, have a strong protectionist tradition which is clearly reflected in the advent of the European Common market and its political dimension, the European Union. The proponents of regionalism in Europe (EU), the United States (NAFTA), and East Asia (EAEC) presents it as an alternative to anarchy and multilateralism. Although the nature and the object of these three blocs is very different, they have at least one thing in common. It is the tendency to have free trade *within* these blocs but protectionism *towards third countries*.

From the perspective of the South, the new international environment does not portend more favorable prospects for their primary concern: improving material conditions at home. Now as during the Cold War, the Third World is in a generally weak position in the international political economy. The end of the Cold War and the shift from the East/West axis brings the world back to a North/South axis of conflict. Before the Third World had the option to defect to the other side but after the two ideological adversaries have disappeared there are none. The new option seems to be - submit or resist.

The real issue to be addressed today by latecomers to industrialization is whether or not it is possible to repeat the so-called successful experience from a number of East Asian states which had high growth rates over a long period and sustained domestic capital formation. And, if so, how long will be the transitional periods, during which latecomers can effectively enter a market and build up market shares large enough to reap economies of scale and to increase learning and experience economies? Under what conditions will latecomers be able to shoulder

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<sup>15</sup> S. Rubin and T. Graham (eds.), Managing Trade Relations in the 1980s: Issues Involved in the GATT Ministerial Meeting of 1982, Rowman & Allen, Washington D.C., 1984, p.26.

the increasing cost burden of continuous competitive battles? And, finally, how will countervailing strategies, developed by the dominant oligopolists, affect latecomers' policies of managing such questions as employment generation, profit-sharing, transfer of technology and building up forward and backward linkages between foreign investors and domestic suppliers.

Many countries appear to be banking on export growth to lower unemployment, but recovery in one country is not likely to go far in the absence of a corresponding recovery in others; and trying to capture a larger share of the world market is a zero-sum game. It is more likely to induce beggar-my-neighbour import-protection or export subsidization. In this regard, the *UNCTAD Trade and Development Report 1993*<sup>16</sup> explains that while every country can increase productivity, all cannot increase competitiveness, and if they try to do so rather than to increase global demand collectively, the result will be more recession and unemployment all round.

Paradoxically, there is a sense in which neo-mercantilism, the pursuit of a trade surplus for its own sake or in the belief that a trade surplus maximizes national wealth, has never been so central to the evolution of the world economy.<sup>17</sup> In the post Cold War period, neo-mercantilism appears in the guise of the more extreme versions of export promotion or import substitution. Thus, "We begin to observe policies that judiciously combine export promotion and protectionist measures. We would seem to be moving in a direction where the clear-cut distinction between free trade on the one hand, and protectionism on the other, becomes increasingly blurred."<sup>18</sup>

In view of recent developments in international economic policy it is quite clear that protectionist measures - which traditionally are drastically lowered as a result of previous GATT Rounds of Negotiations - are rapidly being replaced by all kinds of non-tariff barriers such as 'voluntary' trade restrictions, technical norms, anti-dumping measures, safeguards, and

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<sup>16</sup> UNCTAD, *Trade and Development Report*, 1993, Geneva.

<sup>17</sup> T.N. Srinivasan, *International Aspects: Introduction to Part 5*, in H. Chenery and T.N. Srinivasan, (eds.), *Handbook of Development Economics*, Vol.II, Amsterdam, North-Holland, 1989.

<sup>18</sup> Louis Emmerij, *Globalization, Regionalization and World Trade*, *Columbia Journal of World Business*, Summer 1992, Vol. XXVII, Number II, 1992, p.10.

bureaucratic harassment.<sup>19</sup> The industrialized countries also impose 'reciprocity' which, in layman's language, means that they agree to open up their markets for a certain product, but only on condition that the exporting countries open up their own markets. This situation of 'unequal exchange' is impossible for developing countries to accept.

To sum up, we are talking about an increasing convergence between geo-politics, industrial and trade policies. This is true in the North as well as in the South. Two aspects are involved:<sup>20</sup>

- 1) A far-reaching promotion and protection of industries which generate or heavily rely on generic technologies - such as microelectronics, computer-based information technologies, biotechnology, new raw materials, and renewable energies - by means of non-tariff barriers, investment regulations, government procurement policies, funding of basic and applied research, and an increasingly tough intellectual property right protection. Such non-tariff barriers to trade have been increasing everywhere.
- 2) At the same time, aggressive policies to open up (liberalize) foreign markets, in particular some potential future growth markets in Asian and Latin American NICs, by means of a vicious 'beggar-my-neighbour export promotion' and the insistence on 'reciprocal market access.'

The new structural changes are described by Strange et al. and Cox. There are three critical and intertwined ingredients:<sup>21</sup> Bargaining among states for power and influence, competition among TNCs contesting world markets and the specific bargaining between states and TNCs for the use of wealth-producing resources. All three are critically influenced by and in turn influence the world structures of security, finance and knowledge.<sup>22</sup> The changes in these structures during the last few decades have altered the ground rules for everyone. Structural

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<sup>19</sup> Suhadi Mangkusuwondo: *Trade Policy as a Strategy for Structural Adjustment*, in Ungku A. Aziz (Mod.): *Strategies for Structural Adjustment. The Experience of Southeast Asia*, Papers presented at a Seminar held in Kuala Lumpur, Malaysia, June 28-July 1, 1989, International Monetary Fund & Bank Negara Malaysia, Washington, 1990, p.91.

<sup>20</sup> For the following see Ernst and O'Connor, *Technology and Global Competition*, op cit. pp.26.

<sup>21</sup> John Stopford and Susan Strange with John S. Henley, *Rival States. Rival Firms. Competition for world market shares*, Cambridge Studies in International Relations: 18, Cambridge University Press, Cambridge, 1991, p.32.

<sup>22</sup> Robert Cox, *Production Power and World Order: Social Forces in the Making of History*, Columbia University Press, New York, 1987.

change has not, however, had a uniform effect on either firms or countries. Though the experiences of structural change is common to all, the consequences have been sharply different for both countries and TNCs.

## Capacity and Bargaining Strategies in Latecomer Industrialization

Polyanyi was probably correct when he noted that a self-regulating market system was an exceptional moment in the history of mankind. Actually, mixed economies, combining market and state coordination, are the long-term and the general rule. As economies become more and more complex, the need for combined market and state coordination of the economy becomes bigger and bigger. Polyanyi's remarks helps to explain the success of the ASEAN countries as well as that achieved by the NICs and Japan.

In development discussion, the success of Japan, the NICs and to some extent the ASEAN-4 is often held up as an example of the rewards to market-oriented, outward-looking economic policies.<sup>23</sup> In contrast to these orthodox economists explanation, a number of scholars have suggested that in a latecomer, state policies help to protect, promote, and rationalize industry. The line of this argument emphasize the elements of policy that prove critical to maintain economic growth and develop industry.<sup>24</sup> The notion of 'state capacities' simply denotes a state's choice of policies which will be heavily influenced by its existing capacities to carry out a range of policies. Those that require the costly development of new capacities are less likely to be pursued. Alternatively, the success or failure of a policy will depend largely on the institutional resources that the state has available to secure its implementation.

The success of East Asian state capacities and bargaining strategies has been widely debated as either the result of a new, hybrid non- or anti-Western system. "It is my contention that

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<sup>23</sup> There are entire libraries on the subject. One recent attempt is the first Japanese funded World Bank research project. John Page et al., The East Asian Miracle. Economic Growth and Public Policy. A World Bank Policy Research Report, Oxford University Press, New York, 1993. For a comprehensive critique see Albert Fishlow et al., Miracle or Design? Lessons from the East Asian Experience, Policy Essay no. 11, ODC, Washington, 1994.

<sup>24</sup> See the discussion in Robert Wade: The Role of Government in Overcoming Market Failure: Taiwan, Republic of Korea and Japan, in Helen Hughes (ed.), Achieving Industrialization, Cambridge University Press, Cambridge, 1988. Robert Wade & Gordon White, Developmental States and Markets in East Asia: an Introduction, in Gordon White (ed.), Developmental States in East Asia, Macmillan, London, 1988. Robert Wade, *East Asia's Economic Success. Conflicting perspectives, partial insights, shaky evidence*, World Politics, Vol.44, No.1, January, 1992.

these countries are sufficiently distinct, as compared with the West, that one is entitled to speak of them as a "second case" of capitalist modernity. I cannot substantiate this view in detail here, but let me list some of the distinctive features. There are, of course, salient economic features: high economic growth rates, sustained over many years; the remarkable fact that in some of these countries (Taiwan as probably the most important one) high growth has been associated, at least for a while, with diminishing income inequality;<sup>25</sup> an astounding improvement in the material standards of living of virtually the entire population; a highly active government role in shaping the development process (while East Asia certainly has capitalism, with the possible exception of Hong Kong, it certainly does not have laissez-faire capitalism); an underdeveloped welfare state (even in Japan); low tax rates and high savings rates (two probably interconnected facts); and an economy geared to exports. Could it be that East Asia has successfully generated a non-individualistic version of capitalist modernity?"<sup>26</sup> However, even if Berger is correct it is important to stress that as East Asian economies begin to industrialize, they have been pressed, particularly by the US, to open their markets, precisely to avoid more Japans. The question remains, if there has been an East Asian model or specific type of capitalism, it has probably relied on the US 7th Fleet and a relatively open North American market. That these realities are steadily diminishing also reflects East Asia's maturation and success.

Turning now to the ASEAN-4<sup>27</sup> it is undeniable that they all adopted political forms in which authoritarian characteristics were to a greater or lesser degree prominent. The national leaders of the four ASEAN states adopted the menu during the American engagement in Korea and later in Vietnam from Samuel Huntington, who in the early 1960s argued for the need of a strong government capable of imposing order on society and implementing policies in the interest of economic capitalist development.<sup>28</sup> Under relatively authoritarian rule it was hoped that the state could formulate and implement developmental policies free of the self-interested political pressures to which governments had to respond under unrestricted democracy. Backed by a powerful security apparatus capable of protecting the regime from political challenges,

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<sup>25</sup> Economists speak here of an "anti-Kuznets effect", referring to Simon Kuznet's thesis, substantiated in most places, that high growth rates is associated with increasing inequality until a leveling process begins at a later stage.

<sup>26</sup> Peter L. Berger, *An East Asian Development Model?* in Peter L. Berger and Hsin-Huang Michael Hsiao (eds.), *In Search of an East Asian Development Model*, Transaction Books, New Brunswick, New Jersey, 1988, pp.4-6.

<sup>27</sup> The ASEAN-4: Thailand, Malaysia, Indonesia and the Philippines.

<sup>28</sup> Samuel Huntington, *Political Order in Changing Societies*, Yale University Press, New Haven, 1968.



the government could then place economic policy-making in the hands of technocrats and administrators whose policies were expected to stimulate rapid economic growth and industrialization.

In the following I will briefly explore the issue of developmental state capacities in the ASEAN-4 compared.<sup>29</sup> State elites have had to struggle to construct and maintain political stability, which is not simply a derivative of found cultural values. Even after the period of so-called deregulation in the eighties and the beginning of the nineties there were only minor economic adjustments. A high state induced protection of sensitive sectors are still reinforced throughout the ASEAN-4, except in the Philippines.

The Japanese-type-capitalist developmental state has four fundamental structural features: 1) stable rule by a political-bureaucratic elite that does not accede to political demands that would undermine economic growth or security; 2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; 3) heavy and continuing investment in education for everyone, combined with policies to ensure the equitable distribution of national income; and 4) a government that understands the need to use and respect methods of intervention based on the price mechanism.

Each of these fundamental features exists in the Japanese, Korean, and Taiwanese systems, although with differing weights, patterns of historical evolution, and tradeoffs arising from stressing one more than others. Although, this is not the case of the ASEAN-4 where the capacity and autonomy of the state has severe external constraints which limited its room of manoeuvre there are both similarities but also significant differences.

- 1) The importance of political stability and insulation of planners and policy-makers against interference from domestic forces equals the Japanese experience in all the countries concerned, except in the Philippines where the policy elite is highly infiltrated by business interests.

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<sup>29</sup> Seminal attempts were made in Johannes Dragsbaek Schmidt, *In the Shadow*, op cit., and Johannes Dragsbaek Schmidt, *ASEAN i en forandret international arbejdsdeling, (ASEAN in a Changing International Division of Labour)*, Center for Udviklingsforskning, Den Ny Verden, Copenhagen, Vol.26, Number 2, 1993. The following paragraphs have been adapted from Johannes Dragsbaek Schmidt, *Increasing Exports in a Decreasing World Market: The Role of Developmental States in the ASEAN-4* Paper presented at the 10th Annual Conference of the Nordic Association of Southeast Asian Studies (NASEAS). How Free are the Southeast Asian Markets?, Paasikivu Institute, Turku, Finland, 10-12 September, 1993. Also published as Working Paper No.35, (Dept. of Development and Planning, Aalborg University), 1994, pp 14-16.

- 2) The evidence shows that the role of pilot planning agencies in the ASEAN-4 has the same function as in Japan. However, the effects of policy implementation is different.
- 3) None of these special features have been successful replicated, except in Malaysia, where one of the goals of the New Economic Policy (NEP) has been to upgrade the capacities of the poor Malay's through equity policies such as income-distribution and enhancing educational resources.
- 4) On this particular point all governments have tried more or less successful to intervene in the marketplace through the price mechanism.

The role of the developmental state in Malaysia, Indonesia, Thailand and the Philippines has been a more modest one compared with Japan or the NICs. Nevertheless, the capacities of the state in East Asia to implement a strategy of bargaining either in the internal or external context tend to depend heavily on the configuration of the state.

### **Double Transition in a Competitive Environment**

In a scathing critique of the policy of the French socialist government in the Gulf war, Régis Debray pointed out that democracies have been imperialist ever since Athens and the Delian League.<sup>30</sup> The combination of democracy at home and imperialism abroad is an age old formula. This is a dimension constantly marginalized in political theory. Furthermore the independence of nations in the Third World to decide on their own policies has been effectively curtailed. New concepts have arrived such as intellectual property rights, local contents, free trade arrangements and selective discriminatory taxes.

The environment, human rights and democracy have all become instruments of economic leverage, not as substitutes for colonialism, but as a more sophisticated way of control and domination. However as the Malaysian Prime Minister mentioned in his opening speech to the 1992 Non-Aligned Movement Summit in Jakarta: "Clearly from the list of violations of basic principles on human rights and accepted international behaviour by the rich and powerful, there is a need for us to go on to pool what little strength we have in order to avoid what amounts to a revival of the old Western colonialism. It is not a case of confronting anyone.

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<sup>30</sup> Le Nouvel Observateur, February 1991. Quoted from Jan Nederveen Pietersee, *Fukuyama and liberal democracy: the ends of history*. Economy and Society, Vol.22 No.2, May 1993, p.227 and fn. 42.



This group is not in a position to confront. But we need to protect ourselves. Protection needs some strength."<sup>31</sup>

The external capacities and bargaining strategies of a state is heavily influenced by its internal coherence and institutional fabric. Effective policy solutions are apt to be sought during wartime or by regimes that stress rapid economic development, guided and spurred by a state apparatus and a government simultaneously dedicated to enforcing political and social stability.

This is exactly the point in capitalist as well as non-capitalist states of East Asia today. That is why the importance of ideology has been replaced by pragmatism and a quest for a stable political climate. In the case of the Communist one-party states this variant of authoritarianism provides an excellent point of departure for implementation of a high-speed catch-up strategy. An actively interventionist state basing its legitimacy on fulfilment of increasing expectations to the ability of the state to deliver the goods and acting as a grand arbiter or mediator on the premise that the government is the guardian of the common good, of a national interest that supersedes the parochial interests of each sector. The capitalist states of East Asia fit this scenario even amidst perceived threats from abroad. State involvement in securing a competitive edge for industry has made particular sense where the development strategy was not merely protectionist in nature but aggressively export oriented.

In the Vietnamese situation the transitional character of the economy leads to what Andreff has called a paradox situation: The transition out of socialism seems to be rather efficient handled by a Communist Party still in power but convinced of the benefits of a market economy at a time when, in the former Soviet Union and Eastern Europe, economic transition is regarded as the twin sister of political democracy and its flourishing parliamentary debates. The Chinese economic reform since 1978 is probably another case in point.<sup>32</sup>

Economic reforms in Vietnam started in 1979, and took a more radical form *đổi mới* (renovation) in 1986. Vietnam has been remarkably successful in implementing substantial economic reforms during a period when it was experiencing major external shocks. In marked contrast to other countries undertaking such reforms, Vietnam has moved cautiously in implementing economic reforms and in restructuring state enterprises. This has allowed the

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<sup>31</sup> Dr. Mahathir Mohamad, *Distorted Face of New World Order*, *New Straits Times*, Kuala Lumpur, September 2, 1992, p.12.

<sup>32</sup> Wladimir Andreff, *The Double Transition from Underdevelopment and from Socialism in Vietnam*, *Journal of Contemporary Asia*, vol.23 no.4 1993, p.529.

country to largely avoid the traumatic social adjustments that have taken place in some of the East European countries. The gradual approach and the sequencing of reforms has minimized social dislocation, and this has been an important factor in maintaining widespread popular support for the reform programmes.

The dissolution of the Cold War has made it easier for the Americans and Europeans to put pressure on the East Asian NICs and Would-be NICs on trade issues. Unlike the period 1950-80s when the ideological confrontation between the Soviet socialist bloc and the Western capitalist bloc made it imperative that the Asian NICs be viewed as successful models of capitalist development, and hence needed nurturing, encouragement and support from the capitalist industrialized countries, there is no such ideological imperative in the 1990s. Indeed, the clearest refutation of any successful replication of the East Asia model is provided by the Japanese economist Iwao Nakatani: If the entire world were to adopt the Japanese system, the world's markets would be closed and Japan's economic expansion would be stopped right there.

Nevertheless, the retreat of communism into semi-industrialized capitalism may leave space for the original democratic socialist project which as a minimum may have at least three important objectives: greater egalitarianism in economic, socio-cultural and political terms, social control of important policy decisions and international solidarity. The transformation of the Vietnamese economy today is no longer a single matter of finding a way out of underdevelopment, but an issue of restructuring the role of the state and its partnership with, and guidance of, the private sector. Whether Vietnam succeeds in its move towards a new economic model or it replicates the dependent model of extreme FDI and EOI dependency with all its social and environmental problems remains to be seen. The countervailing forces of a low development base and the choice of policy direction determines the new insertion of Vietnam in the world economy and the country's capacity to become a new 'Asian dragon' in the future.

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